



## Policies and Procedures

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### POLICY

#### Prime Consultant Compensation for Sub-Consultant Costs

**General Topic:** Sub-consultant mark-ups  
by prime consultants

**Policy #:** 2006-01

**Subject:** Establish allowable mark-up for  
sub-consultant costs

**Issued:** October 26, 2006 ( new policy)

**Contact:** Director, Office of Consultant  
Services

**See also:**

#### Purpose and Description

To revise Washington State Department of Transportation (WSDOT) practices to address appropriate compensation to prime consultants (primes) for their efforts and cost associated with sub-consultants (subs).

The total or "true" costs, risks, oversight efforts and administration burdens to the primes of managing sub-consultants' work on WSDOT agreements have not been clearly identified or fully compensated.

Current practices only partially compensate the prime for their costs either directly through the profit or fee negotiations or indirectly through their overhead rate.

This policy allows the prime consultants to mark-up all their sub-consultant costs by 4 percent. This mark-up is available to primes for all agreements, agreement supplements, task orders and amendments to task orders. All sub-consultant costs incurred from November 1, 2006 are eligible for the 4%.

An additional mark-up of up to 2% is negotiable for costs of sub-consultants who are qualified small business enterprises. This additional mark-up recognizes added costs to the Primes for training and mentoring unique to the smaller consultants. These negotiations must include OCS or its designee. The effective date of the additional mark-up will be determined by negotiations but will not be effective before November 1, 2006.

This policy becomes effective November 1, 2006.

Michael T. Kane, Director, Consultant Services Program

Policy#: 2006-01

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## **Procedures**

### **Contact**

- For [policy questions](#) contact the Director of Consultant Services.
- For [procedure questions](#) contact the Assistant Director of Consultant Services.

### **Definitions**

1. **Qualified small businesses means:**  
A firm as defined by the Small Business Administration's Table of Small Business Size Standards. This table lists small business size standards matched to industries described in the North American Industry Classification System (NAICS).
2. **True Costs means:**  
B&O Taxes, Insurance, Bonding, and other related direct costs to prime which are currently non-billable and only partially recovered as part of the overhead rate.
3. **Risks:**  
Reflects the prime's responsibility for the delivery of sub-consultants' work.
4. **Oversight efforts:**  
Reflects Principals' and others time for quality control and process improvements
5. **Administrative burden:**  
Involves billings management and records archiving, much of which occurs in corporate offices outside of Washington State.



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#### **Billing procedures**

1. All sub-consultant costs:  
Primes are allowed to bill 4% of their costs, before any markups for all sub-consultants.
2. Small businesses sub-consultant costs:  
Primes are allowed to bill up to 2% of their costs, before any markups, for small business sub-consultants.

#### **Guidelines:**

[Accounting Manual](#)

[WSDOT - Audit Guides](#)

<http://www.wsdot.wa.gov/Consulting/Forms/ConsultantServicesProceduresManual.pdf>